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## **Relocation to Luxembourg**

**Nestled between Belgium, France and Germany, lies the Grand Duchy of Luxembourg. Although the general public primarily knows Luxembourg as a financial centre focussed on investment funds and wealth management, it is also considered quite an attractive jurisdiction to relocate to. Not only wealthy families from the neighbouring countries opt to relocate to Luxembourg, but also people from further away are showing an increased interest in this jurisdiction.**

### **Luxembourg's history**

Although well preserved remains of Celtic and Roman settlements are scattered about the country, the early recorded history of Luxembourg proper dates back to the 10th century and originates with the Fortress of Luxembourg. In the year 963 Count Siegfried built the Castle of Lucilinburhuc on a promontory above the River Alzette. This laid the foundation for the development of the Fortress of Luxembourg and the town which ultimately became Luxembourg City. The fortress and later the town have, because of their location, always been a place of strategic military significance. Over the following centuries the fortress changed hands between different royal families multiple times, as Luxembourg was often disputed territory.

After Napoleon was defeated in 1815, the Congress of Vienna accorded formal autonomy to Luxembourg and saw its transformation to a Grand Duchy. Although it became part of the German Confederation, the King of the Netherlands became head of state in his capacity as Grand Duke of Luxembourg, maintaining the personal union between the Netherlands and Luxembourg until 1890.

Upon the death of the Dutch King, William III in 1890, the title to the Grand Duchy of Luxembourg passed to Adolph of Nassau-Weilburg. Adolph's descendants have since reigned over Luxembourg. Henri (full name Henri Albert Gabriel Félix Marie Guillaume) is the current Grand Duke of Luxembourg, reigning since 7 October 2000. Nowadays Luxembourg counts over half a million inhabitants and, in terms of size, it is one of the smallest European nations.

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### **Luxembourg's government & economy**

Luxembourg is a representative democracy with a constitutional monarch. Henri, Grand Duke of Luxembourg, is the head of state. Luxembourg is the world's only remaining Grand Duchy.

Under Luxembourg's constitution (1868), executive power is exercised by the Grand Duke and a cabinet of several ministers. Legislative power is vested in the Chamber of Deputies. It consists of sixty members, who are directly elected from four constituencies. The Luxembourg government has its seat in Luxembourg City, which is also Luxembourg's capital.

Luxembourg has been one of the main driving forces behind the establishment of the European Union (EU). It is part of the Schengen area (actually the name Schengen refers to the Luxembourg village, Schengen where the agreements to establish the Schengen area were signed) and the Euro is its currency. Luxembourg has three official languages: French, German, and Luxembourgish.

Luxembourg is one of the most affluent countries in the world. Its main economic pillar is the financial services industry. Fund management, private banking and insurance are among the most important financial services offered. Luxembourg is internationally regarded as a respected and well-regulated jurisdiction.

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## Taxes in Luxembourg

Luxembourg has a tax system which is comparable to that of most other countries in the EU. It taxes the worldwide income of its residents based on a progressive personal income tax rate.

- **Personal income tax:** Residents are taxed on their worldwide income and capital gains. All types of personal income and realised gains are taxed in Luxembourg at a progressive rate being a maximum of 40%. The highest tax rate applies as of Euro 100.000 income. The income tax owed is increased by a 7% to 9% surcharge being a mandatory contribution to the Luxembourg employment fund. The maximum marginal rate one might have to pay is therefore 43.6%.
- **Wealth tax:** Luxembourg does not levy a net wealth tax.
- **Inheritance- and gift tax:** Luxembourg levies both gift and inheritance tax. The applicable rates range from 0% to 48% depending on the relationship of the parties to each other and the amount involved. For direct descendants and spouses large amounts are completely exempt from tax and on the remainder basic applicable rates range from 0% to 5%. Depending on the actual wealth received a multiplier between 0.1 and 2.2 might apply.
- **VAT:** Luxembourg levies a Value Added Tax (VAT). The standard rate of VAT is 17%. Reduced rates of 3%, 8% and 14% apply for certain goods and services, such as, food, gas and fuel. A small number of services is completely VAT-exempt, for example, certain financial transactions.
- **Exit tax:** When one leaves Luxembourg and emigrates to another jurisdiction, Luxembourg does not levy an exit tax.

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## Special tax treatment of foreigners relocating to Luxembourg

Luxembourg does not offer a special tax regime to wealthy foreigners who want to immigrate to Luxembourg. However, certain types of Luxembourg wealth planning structures are available to structure assets in a highly tax efficient manner. Foreigners would need to establish such structures before they actually relocate to Luxembourg.

## **Benefits of living in Luxembourg**

Families who relocate to Luxembourg can establish themselves in Luxembourg City, or in the surrounding rural countryside which is situated primarily north of the city.

Luxembourg City is a relatively small city with just over 100.000 inhabitants. The relatively small population sustains this cosmopolitan city's human scale preserving the romantic ambiance created by the city's rich architectural heritage reminiscent of past ages. Indeed the entire old town and the fortifications are a UNESCO World Heritage Site.

The dramatic splendour of the Ardennes Mountains dominates the northern part of Luxembourg, a region consisting of rugged terrain with extensive forests, rolling hills and ridges where the 330 meter long vestiges of one of the world's only surviving Roman aqueducts are still to be seen. Although these mountains do not rise higher than 700 meters, it is actually possible to enjoy some winter sports during cold winters.

Due to its geographic location, being not very far from the sea and close to the northern part of Europe, Luxembourg has an oceanic climate with cool (but not cold) winters and mild summers, normally without very high temperatures.

In view of the possibility to structure the family's wealth before relocating to Luxembourg, the absence of net wealth tax and very low effective rates with respect to gift and inheritance taxes, Luxembourg is an attractive fiscal alternative, especially for residents from neighbouring jurisdictions.

Although Luxembourg is quite a small jurisdiction, it has its own airport (Luxembourg Findel Airport) offering regular flight connections to the majority of European capitals and, depending on the season, to an interesting selection of holiday destinations. Excellent highway connections exist between Luxembourg and the neighbouring countries.

The school system in Luxembourg is of good quality. Education is provided in Luxembourgish, German and French. Luxembourg has one university. Health care services are of good quality. The cultural and sports infrastructure is worthy of a continental European capital. Luxembourg definitely offers a quality of life, second to none, particularly for families wishing to provide their children with the opportunity to be raised in a secure, affluent, multi-lingual and truly European environment.

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## **Visas and residency permits**

Should one be interested in relocation to Luxembourg, it is advisable to at least visit it first. EU, European Economic Area (EEA) and Swiss nationals do not need a visa to visit Luxembourg. Between Luxembourg and the other Schengen countries, which include all its direct neighbours, there are no effective border controls in place. One is nevertheless advised to carry a passport, or identification card when travelling there.

Non-EU nationals need a valid travel document to travel to Luxembourg and in most cases also a Schengen visa. As Luxembourg's airport has hardly any direct connections outside the EU, most visitors coming to Luxembourg will arrive via another EU jurisdiction. In the majority of cases, this European jurisdiction will also be a member of the Schengen area.

The Schengen visa needs to be valid throughout the stay in Luxembourg (or the remainder of the Schengen area). The holder also needs to have the financial means to pay for the stay and return trip as well as to be covered by a valid travel (health) insurance policy.

Foreigners in possession of a Schengen visa are allowed to remain in the Schengen area for a maximum of 90 days (spent over a period of 6 months). Those who want to remain longer must apply for a residency permit. In order to obtain employment, even for less than 90 days, a residency permit is always obligatory.

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## Becoming a resident of Luxembourg

Nationals from EU jurisdictions, EEA jurisdictions and Switzerland do not need immigration permission to take up residency in Luxembourg. Once they establish themselves in Luxembourg they nevertheless need to go to the local authorities (municipality) to file a residence declaration within the first three months after their arrival. Every member of the family needs to follow this procedure.

### Non-EU individuals

Luxembourg does not offer a specific investor visa program or something such as a high value residency program for non-EU citizens. Nevertheless it is possible to obtain residency in Luxembourg under certain conditions.

### The procedure

1. Before their arrival in Luxembourg non-EU citizens need to apply for a long-term stay permit/ temporary authorisation to stay (more than 90 days). This permit is issued for different categories of applicants, such as employees and students. Wealthy families would normally apply for this type of long-term stay permit in the category of an employee, self-employed, or for private reasons, such as retirement. This application needs to be filed with the '*Direction de l'immigration - Service des Étrangers*' in Luxembourg (the Immigration Office).

At least the following documents will need to be filed to apply;

- Passport Copy
- Birth Certificate
- Curriculum vitae
- Copies of diplomas and professional qualifications
- Proof of financial means if without employment
- An affidavit or police record
- Signed contract of employment, when applicable.

The documents should be provided in French, German or English. When drafted in another language they should be translated by a sworn translator into one of the three languages. Where necessary they should also be authenticated with an apostille certificate, or notarised by a competent authority in the applicant's place of residence.

Once the temporary authorisation to stay has been issued, the applicant must relocate to

Luxembourg within 90 days. Within three days after arrival in Luxembourg the applicant needs to go to the local authorities to file a declaration of arrival.

2. As a second step, after one has actually arrived in Luxembourg, an application for a residence permit must be filed with the Immigration Office within 90 days.

At least the following documents will need to be filed to apply:

- A certified copy of the temporary authorisation to stay
- A certified copy of the declaration of arrival issued by the Commune (municipality)
- A medical certificate issued by the Immigration Medical Department (one needs to undergo a medical examination by a doctor established in Luxembourg and a TB screening by the Health and Social Welfare League)
- A passport size photo
- Proof of appropriate accommodation
- Proof of payment of the obligatory fee to the Immigration Office

If the application for a residence permit is granted, it will be issued for a maximum of 12 months and needs to be renewed yearly.

After 5 years of lawful stay in Luxembourg, non-EU citizens are entitled to apply for long-term resident status in Luxembourg.

One needs to keep in mind that Luxembourg is under no obligation to issue either the temporary authorisation to stay, or the residency permit. Having an attractive personal profile for Luxembourg will therefore be very helpful in the process.

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## **Luxembourg citizenship**

A short-track or easy procedure for foreigners to obtain Luxembourg citizenship does not exist. There is also no special citizenship program.

A foreign citizen can apply for Luxembourg citizenship if he/she has been living in Luxembourg for at least seven years (consecutively and immediately preceding the application) and provides proof of sufficient integration in the jurisdiction;

- The applicant needs to be at least 18 years of age,
- Speak the Luxembourg language (and demonstrate sufficient active and passive knowledge of at least one of the official Luxembourg languages),
- Must have followed at least three Luxembourg citizenship courses, and
- Be of good reputation.

In order to acquire the Luxembourg nationality one does not need to relinquish one's own nationality. Thus, it is possible to hold dual citizenship once the Luxembourg passport has been obtained. The request for Luxembourg citizenship may be rejected.

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## **Leaving your home country and immigrating to Luxembourg**

Luxembourg can be an attractive location for families from neighbouring countries and non-EU families looking for an alternative jurisdiction.

When one arrives in Luxembourg with the intention to stay, one is considered to be a resident of Luxembourg as of the moment of arrival. Although Luxembourg is clearly not a tax haven, when relocating there, one still needs to keep in mind that actually leaving the former home jurisdiction is often a bigger challenge than taking up residency in Luxembourg.

Careful consideration and professional planning are often necessary to prevent being confronted with exit taxes in one's former home jurisdiction, or a situation where the move out of the country is not legally recognised, particularly for tax purposes.

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### **Taking the step**

Families, who consider immigrating to Luxembourg in order to settle there, are advised to seek the support of a (local) private bank, their multi-family office, or a dedicated legal advisor to guide them through the process. If you would like to receive additional information about the benefits and possibilities of relocation to any given jurisdiction, please contact us. We look forward to supporting you.

#### **Disclaimer:**

The information that is provided on this page with respect to the tax system and residency criteria is of general nature and should not be perceived as (tax or legal) advice, or the solicitation of tax or legal services. Although all information is regularly updated, some facts could be outdated.